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RESPONSES TO FREQUENTLY ASKED QUESTIONS CONCERNING ELECTRICITY RATES AND OIL PRICES

During the past few years crude oil prices have increased from approximately $50 per barrel in January 2007 to a high of approximately $140 in June 2008, and have since decreased to slightly below $40 in February 2009, and have increased again to approximately $80 per barrel in March 2010. Since Hawaii is highly dependent on oil for its electricity generation as approximately 90% of electricity generation in Hawaii is fueled by crude oil products, the increases in oil prices has directly affected electricity rates in Hawaii. Understandably, the Public Utilities Commission has received numerous inquiries concerning increased electricity rates and whether electricity rates will also decrease along with the decreases in crude oil prices.

In general, many have asked the following questions:

Why did electricity rates and electricity bills increase so much in 2008 even though the customer may not have increased the amount of electricity used in terms of kilowatt hours? In addition, why did electricity prices continue to rise and not come back down immediately after crude oil prices started to come down?

Your electricity bill from Hawaiian Electric Company ("HECO"), or any of its subsidiaries, Hawaii Electric Light Company, Inc., or Maui Electric Company, is based on various factors that include fixed charges and variable charges based on the amount of electricity used by the customer as measured in kilowatt hours. If you have questions about the specific components of your bill, the HECO website has a detailed explanation of the charges that are on your bill (www.heco.com).

We have developed the following responses to "frequently asked questions" or FAQs to help everyone better understand the current situation.

What is the Energy Cost Adjustment on my electric bill?

The Energy Cost Adjustment charge ("ECAC") on your bill is a commission-approved automatic adjustment that allows the utility to recover its cost for the fuel it uses to generate electricity and its cost to purchase power from other generators, including renewable energy generators.

How is the Energy Cost Adjustment set?

When the commission sets rates for a utility, those rates will include the price of fuel and purchased power. However, because the costs of fuel and purchased power are certain to fluctuate between the times the commission sets electricity rates in a rate case proceeding, the commission allows the utilities to use an ECAC to increase charges to recover these costs from ratepayers if the costs increase, and to reduce charges to ratepayers if these costs decrease.

Why is an Energy Cost Adjustment necessary?

The cost of fuel and purchased power are a large part of an electric utility's expenses. The ECAC gives utilities the ability to deal with these ongoing cost changes without having to make frequent changes to the base rate structure. Additionally, if an ECAC were not used, the utilities would be subject to the risk of an expense they cannot control. This would increase their cost to borrow money, ultimately resulting in higher rates and a less financially healthy electric utility. Most electric and natural gas utilities use an ECAC.

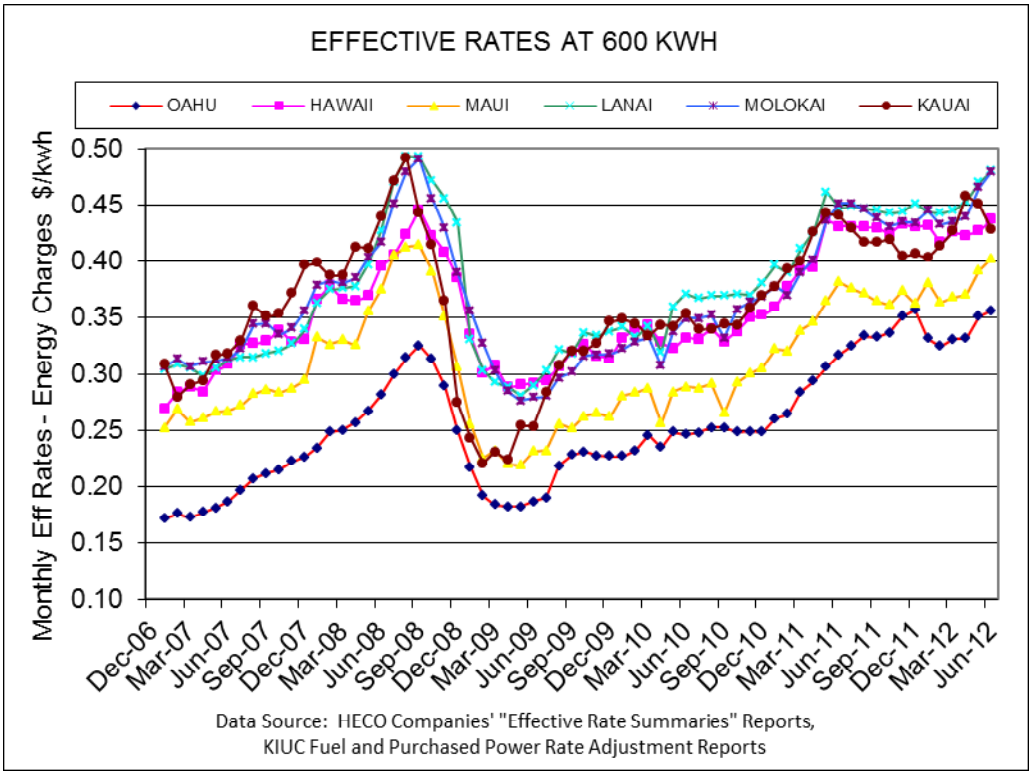
Why is my Energy Cost Adjustment so much?

Because much of Hawaii's electric utilities' energy is generated by burning oil-based fossil fuels, the ECAC will primarily correlate with the rise and fall in the price of oil. Recent increases in the price of oil from 2007 through 2008 were unprecedented – accordingly, so were the energy cost adjustments on our electric bills.

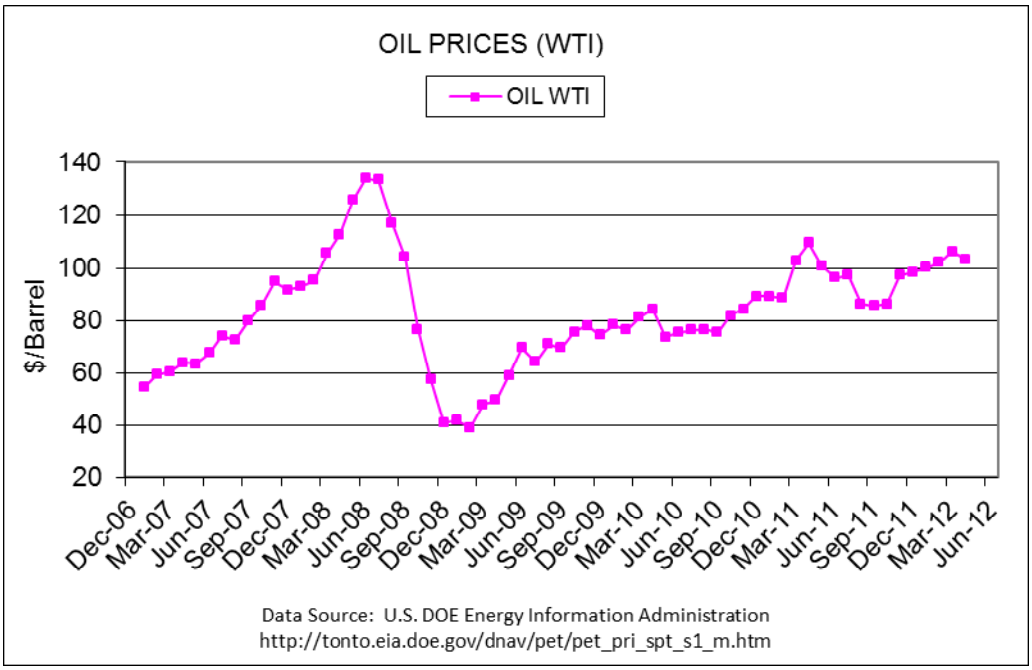
The price of oil decreased significantly in the second half of 2008. Why didn't my Energy Cost Adjustment charge decrease immediately?

The utilities purchase their fuel under a contract and have a certain amount of inventory to protect against any temporary delivery disruptions. The typical fuel inventory is enough to last about sixty days. The ECAC is based on the cost paid for the fuel used to generate electricity during the billing period, so when prices decrease (or increase) there is about a two month lag before the change is reflected in the ECAC.

Electricity rates also vary depending on the category of customer, such as residential, business (small, medium, and large power users), and commercial as well. For illustrative purposes, the following data and information will summarize residential electricity rates and fluctuations in the price of oil since January 2007.The following chart shows monthly residential effective rates ($/kilowatt hour) at 600 kWh usage, which vary primarily based on the ECAC changes, for its customers on Oahu, Hawaii (Big Island), Maui, Lanai, Molokai and Kauai. As you can see from this chart, effective electricity rates increased greatly from mid-2007 to mid-2008, and decreased significantly thereafter.



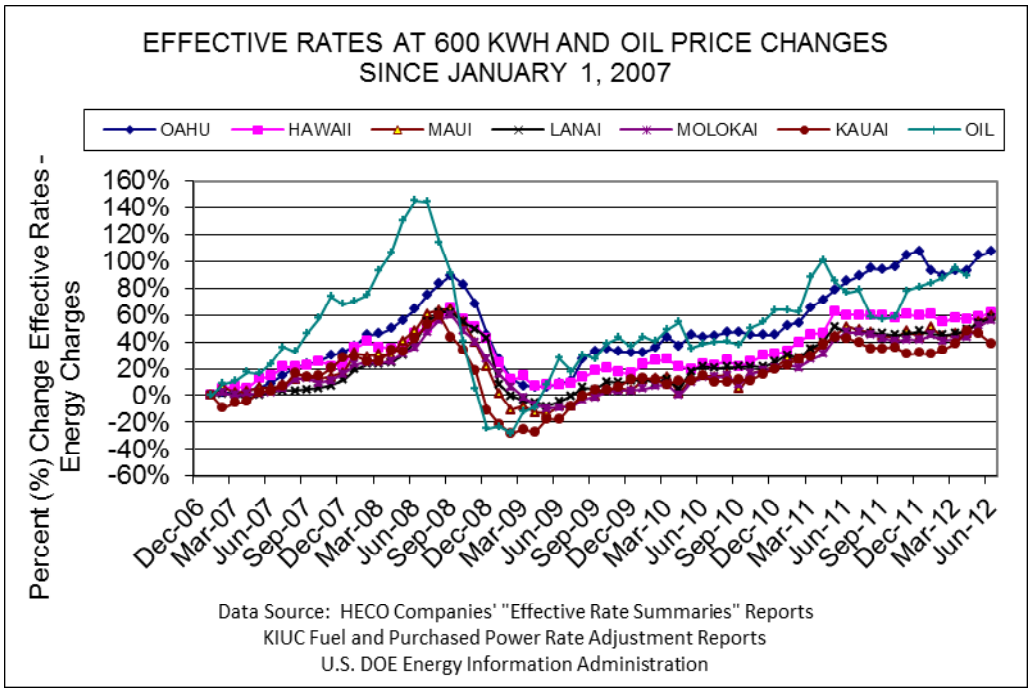
The following chart is a simple graph of crude oil prices during the same time period, which shows similar increases and decreases.



The price of oil decreased in the second half of 2011. Why didn't my Energy Cost Adjustment charge decrease for many months?

WTI (West Texas Intermediate) crude prices are indicative of world oil prices, but do not exactly track the price of the low sulfur crude refined in Hawaii, which comes mostly from Asia and does not have its own price index. After the earthquake in Japan on March 11, 2009, the Asian oil market's demand on crude oil rose. It impacted HECO's low sulfur fuel oil prices accordingly. In addition, one of HECO's contracted power producers encountered a fuel supply challenge at the same time. The accumulated impacts affected resulted in HECO's historically high electricity price.

The next chart combines the preceding two charts and shows percentage changes from January 2007.



As you can see from this chart, the effective rates for electricity generally correspond with changes in crude oil prices, but there is an approximate 60-day lag due to the use of existing inventories after oil prices may change. Thus, after crude oil prices began declining after July 2008, the effective rates did not start declining until October 2008, and effective rates began to increase again after crude oil prices increased in 2009.

We hope the foregoing has been helpful. We will continue to monitor changes in the price of oil and its effect on electricity rates. However, the data also confirms and illustrates how dependent Hawaii is on world crude oil prices. Although oil prices have retreated from their 2008 summer highs, we will continue to be vulnerable to increases in oil prices until oil-fired electricity generation is substantially replaced with alternative resources.